AR19

Cantol Limited 1973 Annual Report

Cantol Limited/Cantol Limitée

Head Office
9729 Cote de Liesse, Dorval, Quebec

Executive Offices and Plant
199 Steelcase Road, Box 2400, Don Mills, Ontario

Subsidiary and Associated Companies
CANTOL LIMITED
Chemical Division —
Momar (Canada) Limited
Canadian Permag Products Ltd.
Warco Lubricants

Dependable Furniture
Neo Drug Company
Northern Realty Company

CANTOL INC.
Chemical Division —
Creco Chemical
Tech Chemical Products

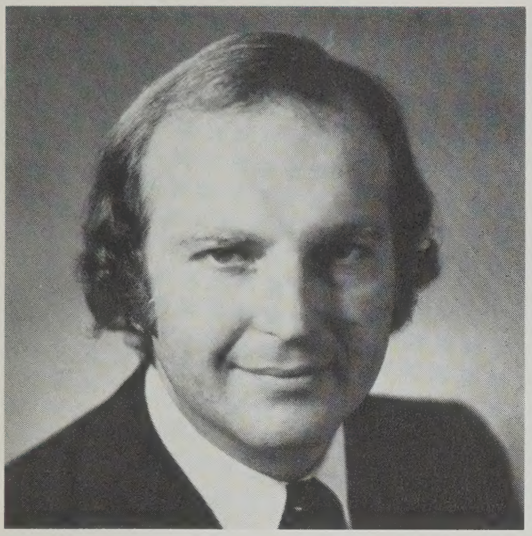
Auditors
Soberman, Isenbaum, Colomby & Nisker

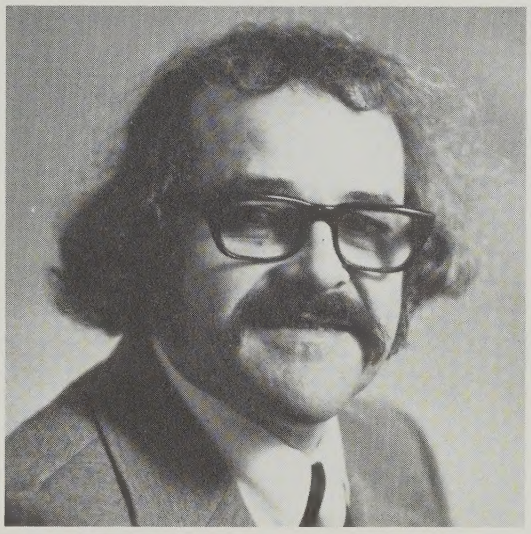
Bankers
Canadian Imperial Bank of Commerce

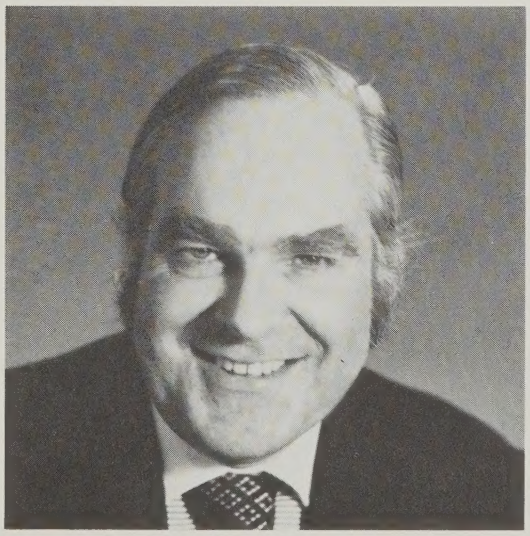
Transfer Agent and Registrar
Crown Trust Company

Stock Listing
Montreal Stock Exchange

Directors and Officers







Directors

Edward Bayer

Jerry Sone

Jeffrey Bayer

Simms Shuber

Senator Keith Davey

Officers

Edward Bayer
President

Jerry Sone
Executive Vice President
and Secretary

Jeffrey Bayer
General Manager

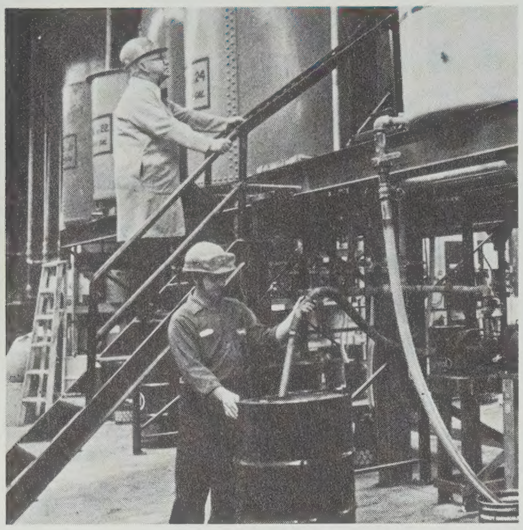
Norman Leach
General Manager, U.S.A.

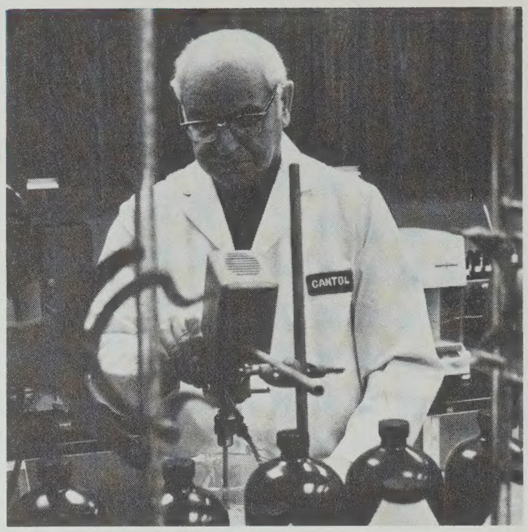
William McAlpine
Vice President, Sales

Dr. Ernest Knapp
Director of Research

Simms Shuber
Treasurer

Audrey White
Comptroller





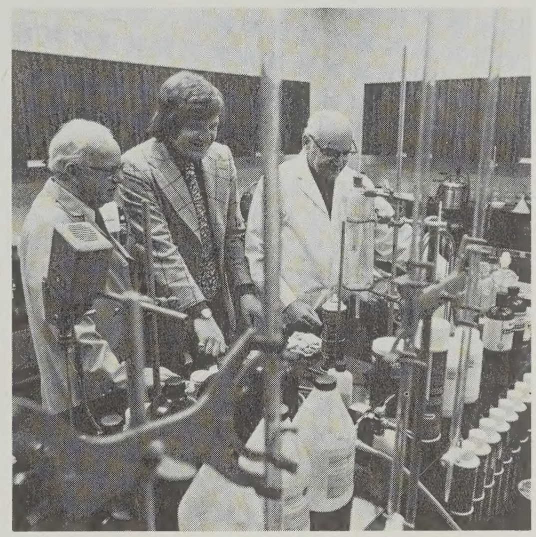
Cantol Limited supplies chemical products to every province in Canada. Our main manufacturing plant is in Toronto, Ontario. Its 35,000 square feet supply a substantial area for the production of all the Cantol liquid and powder products slated for consumption throughout the rest of Canada. In addition to our Toronto operation, we maintain an office and warehouse in both Montreal, Quebec and Vancouver, British Columbia. The Montreal operation services the Province of Quebec, the Maritimes and Newfoundland. The Vancouver office services the Prairie Provinces as well as the West Coast.

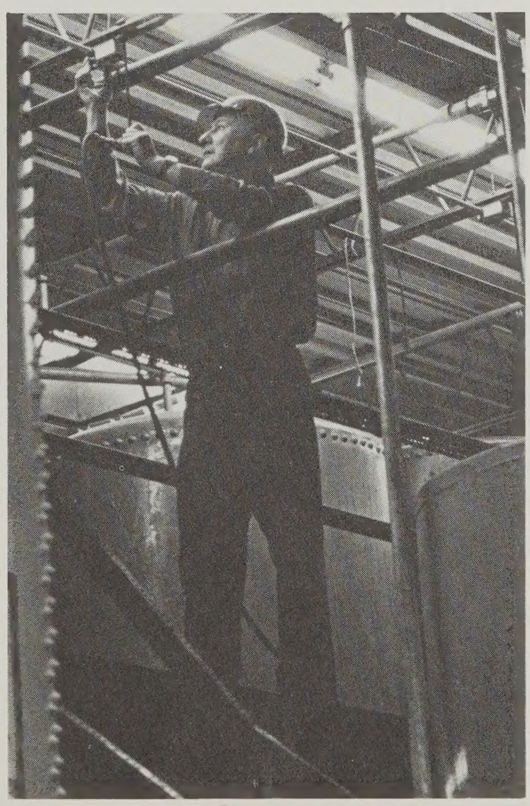
At Cantol Limited, we manufacture approximately 400 chemical products. These products are sold through our qualified sales staff. A wide number of specialty chemicals such as degreasers, solvents and lubricants used in the manufacturing of other products are sold to industry. Our complete line of institutional cleansers, disinfectants and insecticides is sold for use throughout hospitals, hotels, office buildings, schools and various other institutions.

One yardstick in measuring the worth of a company is the time and expertise spent on research. The bulk of Cantol Limited research is done in Toronto in our own laboratory. There, quality control is emphasized and new products, especially in the industrial area, are developed. The specialty lubrication field, for example, is relatively new in the Cantol family of products. With the aid of research, we formulate and manufacture lubricants required for specific jobs . . . and sales are rising each year.

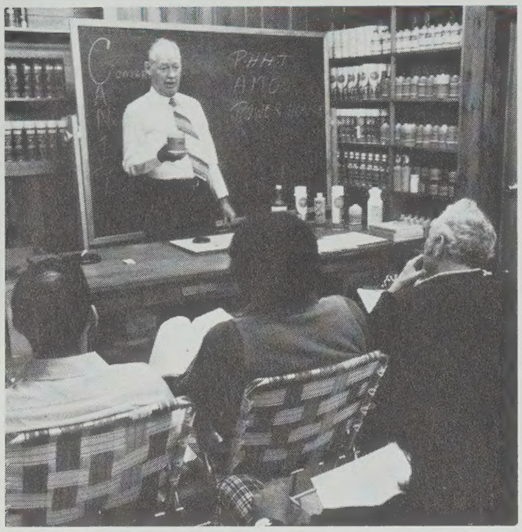
Tied in with research is our continuing interest in environmental control. Dr. Ernest Knapp, PhD, has been working on a possible answer to the oil slick menace — a neutralizing solution that could be added when oil was being pumped into the tanker. This solution will turn oil into jelly when it hits water, making it possible to simply scoop it out of the water. At the present, more tests are being made to safeguard the product with its finalization a result of making it economically feasible.

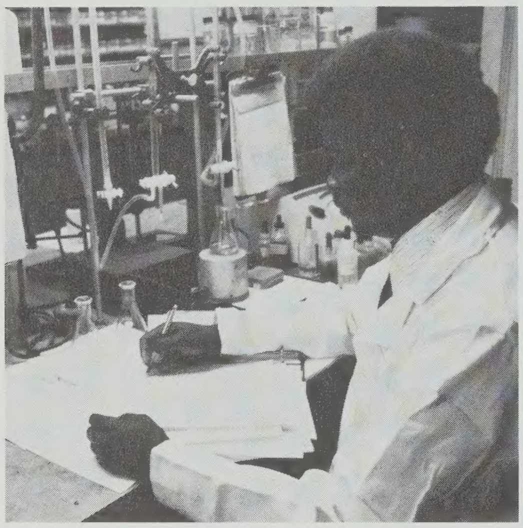
Cantol Limited is a supplier of chemical products to the Automotive Industry, the Aviation Industry, Paper Mills, Railroads, Metal Finishers, Brewers-Bottlers, Fleet Operators, Office Buildings, Municipalities, Hospitals, Public Works, Utilities, Institutions, and all types of Industrial plants.

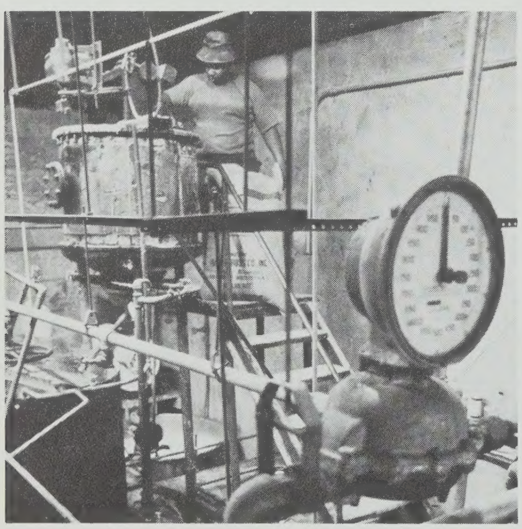




Cantol Incorporated Chemical Division



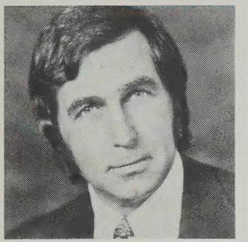


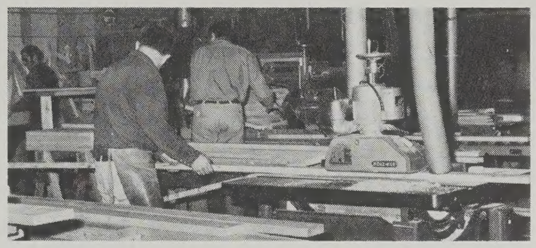
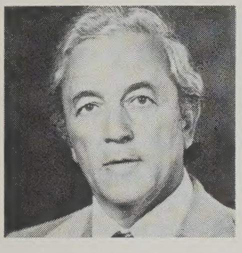


Previously, Cantol Incorporated Chemical was located in both Philadelphia and New York. To improve efficiency, ensure quality control and cut down duplications in cost, operations have now been consolidated in our Philadelphia plant. 40,000 square feet of office and manufacturing facilities enable us to manufacture all our products under one roof, supplying the Eastern seaboard of the United States.

At Cantol Incorporated, we manufacture and distribute through our own salesforce a complete line of specialty chemicals of particular benefit in various areas of industry and transportation. Sanitation cleansers, disinfectants, insecticides, degreasers, solvents and lubricants are some of the many products.

Currently, Cantol Incorporated operates under two divisions, retaining the names of the parent companies – Creco, which has been in existence for 37 years and Tech, for 24 years. The two divisions have been incorporated and their products are sold under the Cantol name. These established companies have customers who have been buying Creco and Tech products for many years. They will continue to do so and sales will expand with the addition of new Cantol specialty products unavailable to them through the original companies.




The newest entry in the Cantol family is Dependable Flex Steel Furniture. The plant is located in Vancouver, British Columbia, with approximately 70,000 square feet for the manufacturing of domestic, office and contract furniture.

As a manufacturer of high grade domestic furniture, Dependable maintains a reputation for quality construction and elegant design. Both reproduction antique and luxurious modern are to be seen across Canada in internationally known prestige hotels and restaurants.

The high quality line of office furnishings shares the Dependable reputation. Desks, chairs and credenzas are available through our own salesforce to distributors and direct sales. In addition, a contract furniture division manufactures under specifications for Government, hotels, institutions and offices.

Dependable Flex Steel Furniture is unique in that we manufacture all parts ourselves. We have our own steel shop and our own wood shop so everything from the construction of steel frames to the laminating of desk tops is done in one place.

Dependable Flex Steel Furniture currently operates primarily throughout Western Canada with limited contract sales to Eastern Canada and the United States. However, in 1974, we expect to expand our sales into the eastern part of Canada.

Report to the Shareholders.

1973 has been an outstanding year for your company. Strong growth in earnings was paralleled by a broadening of the industrial and geographical base of the company.

Net earnings increased to 346,656 (.74 per common share) compared to 265,299 (.58 per common share).

These results reflect a continuing and steady growth by the part of those companies that formed the Group at the start of the year as well as a significant contribution from our new furniture division. In May 1973 our New York subsidiary Cantol Inc purchased the assets of Technical Maintenance Products of Philadelphia. Predicted losses occurred during the reorganization and consolidation of this specialty chemical house with the Creco Company which had been acquired in 1972.

Effective July 1973 we purchased the assets of Dependable Furniture Manufacturing Limited of Vancouver, the unrivalled leader in its field in Western Canada. National expansion is planned.

In September 1973 the common shares of the company were listed for trading on the Montreal Stock Exchange as opposed to our previous listing on the Canadian Exchange.

We sincerely appreciate the continued support of our shareholders, employees, customers and associates in maintaining our successful growth pattern.

On behalf of the Board of Directors:

E Bayer

Edward Bayer, President

Cantol Limited/Cantol Limitée and Subsidiary Companies

Consolidated Statement of Earnings

For the year ended December 31, 1973
(with comparative figures for 1972)

	1973	1972
Sales	**$6,623,165**	$3,009,392
Operating costs and expenses		
Cost of sales, selling, general and administrative expenses, except for the following:	**5,962,347**	2,534,507
Depreciation	**53,947**	30,444
Interest on long-term debt	**24,233**	13,806
Other interest	**44,243**	3,085
Interest earned	**(22,421)**	(32,627)
	6,062,349	2,549,215
Earnings before income taxes, minority interest and extraordinary items	**560,816**	460,177
Income taxes: current	**267,500**	223,403
: deferred	**2,300**	—
	269,800	223,403
Earnings before minority interest and extraordinary items	**291,016**	236,774
Minority interest share of loss of subsidiary	—	225
Earnings before extraordinary items	**291,016**	236,999
Extraordinary items (note 8)	**55,640**	28,300
Net earnings	**$ 346,656**	$ 265,299
Earnings per share (note 9)		
Before extraordinary items	**$ .62**	$ .52
Extraordinary items	**.12**	.06
Net earnings	**$ .74**	$ .58

(See accompanying notes to consolidated financial statements.)

Auditors' Report to the Shareholders of Cantol Limited/Cantol Limitée

We have examined the consolidated balance sheet of Cantol Limited/Cantol Limitée and subsidiary companies as at December 31, 1973, and the consolidated statements of earnings, contributed surplus, retained earnings and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and use of their working capital for the year then ended, in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Soberman, Isenbaum, Colomby & Nisker
Chartered Accountants.

Toronto, Canada
February 20, 1974

Consolidated Balance Sheet

For the year ended December 31, 1973
(with comparative figures for 1972)

Assets

			1973	1972
Current Assets				
Cash and short-term deposits			**$ —**	$ 601,807
Accounts receivable			**1,468,726**	633,825
Inventories, valued at lower of cost (on a first in, first out basis) or net realizable value.				
Raw materials and work in process			**747,422**	118,892
Finished goods			**336,595**	232,761
Total inventories			**1,084,017**	351,653
Prepaid expenses and other current assets			**90,429**	47,325
Total current assets			**2,643,172**	1,634,610
Fixed Assets	Cost	Accumulated Depreciation		
Land	$325,185	$ —	**325,185**	306,000
Buildings	163,185	34,157	**129,028**	116,256
Machinery and equipment	386,138	125,128	**261,010**	97,845
Leasehold improvements	104,221	15,104	**89,117**	47,477
	$978,729	$174,389	**804,340**	567,578
Goodwill (note 1 (c) and 2)			**3,047,017**	1,666,409
			$6,494,529	$3,868,597

		1973	1972
Liabilities			
Current Liabilities			
	Bank indebtedness (note 4)	$ 892,815	$ —
	Accounts payable and accrued charges	998,723	276,065
	Income taxes	55,913	8,404
	Notes payable	—	101,250
	Current portion of long-term debt	99,541	17,471
	Total current liabilities	2,046,992	403,190
Long-Term Debt and Other Non-Current Liabilities (note 5)		922,194	311,435
Deferred Income Taxes (note 6)		7,300	5,000
Minority Interest in Subsidiary Company		—	11,465
Shareholders' Equity			
Capital Stock (note 7)			
Authorized	1,500,000 common shares of $0.20 par value		
Issued	659,565 shares (1972 — 654,065 shares)	131,913	130,813
Contributed Surplus		3,459,479	3,426,699
Retained Earnings		823,120	476,464
		4,414,512	4,033,976
	192,420 common shares of the parent company held by a subsidiary	896,469	896,469
		3,518,043	3,137,507
		$6,494,529	$3,868,597

(See accompanying notes to consolidated financial statements.)

Approved on behalf of the Board

Director

Director

Consolidated Statement of Contributed Surplus

For the year ended December 31, 1973 *(with comparative figures for 1972)*	1973	1972
Balance at beginning of the year	$3,426,699	$3,367,583
Excess of proceeds over par value of common shares issued under employees' stock option (note 7)	32,780	59,116
Balance at end of the year	**$3,459,479**	$3,426,699

Consolidated Statement of Retained Earnings

For the year ended December 31, 1973 *(with comparative figures for 1972)*	1973	1972
Balance at beginning of the year	$ 476,464	$ 211,165
Net earnings	346,656	265,299
Balance at end of the year	**$ 823,120**	$ 476,464

Consolidated Statement of Source and Use of Working Capital

For the year ended, December 31, 1973 *(with comparative figures for 1972)*	1973	1972
Source of Working Capital		
Net earnings	$ 346,656	$ 265,299
Items not requiring working capital		
Depreciation	53,947	30,444
Deferred income taxes	2,300	(400)
Gain on winding up of subsidiaries	(4,840)	—
Minority interest share of loss of subsidiary	—	(225)
Working capital from operations	398,063	295,118
Issue of common shares under employees' stock option plan	33,880	62,372
Disposal of real estate property	—	22,500
	431,943	379,990
Use of Working Capital		
Excess of purchase price of businesses acquired over the book value of their underlying net assets	1,378,108	118,074
Net additions to fixed assets including fixed assets of acquired businesses, 1973 — $194,037; 1972 — $44,425	290,709	56,841
	1,668,817	174,915
Less: long-term debt incurred on purchase of the businesses and fixed assets acquired	700,000	—
	968,817	174,915
Net reduction of long-term debt and other non-current liabilities	89,241	59,444
Purchase of minority interest in subsidiary	9,125	—
	1,067,183	234,359
Increase (decrease) in working capital	(635,240)	145,631
Working capital at beginning of the year	1,231,420	1,085,789
Working capital at end of the year	**$ 596,180**	$1,231,420

(See accompanying notes to consolidated financial statements).

Notes to Consolidated Financial Statements

December 31, 1973

1. Summary of significant accounting policies

(a) Principles of consolidation
The consolidated financial statements include the accounts of the Company and all its subsidiaries.

(b) Exchange Translation
The accounts of the U.S. subsidiary have been translated at par since the exchange fluctuations were immaterial during the year.

(c) Goodwill
Goodwill consists of the excess of investments in subsidiaries over their net assets at acquisition and purchased goodwill. No portion of this asset has been amortized, as management believes there is no permanent decline in value.

(d) Income Taxes
The Company follows the tax allocation method of providing for income taxes. Under this method, the timing differences between reported and taxable income result in deferred income taxes.
In the case of one subsidiary, future income tax benefits, related to losses incurred, have been recognized in the accounts as, in the opinion of management, it is virtually certain that future earnings will be sufficient to realize these benefits.

2. Acquisitions

During the year the Company acquired the assets and assumed the liabilities, on a going concern basis, of Technical Maintenance Products Inc. (through its United States subsidiary, Cantol Inc.) and Dependable Furniture Mfg. Co. Ltd. These were purchase acquisitions and the results of their operations have been consolidated from the dates of acquisition.

Details of the acquisitions are as follows:

	Technical Maintenance Products Inc.	Dependable Furniture Mfg. Co. Ltd.
Nature of business	Chemical Manufacturing	Furniture Manufacturing
Effective date of acquisition	May 1, 1973	July 1, 1973
Fair value of assets acquired	$671,650	$ 991,143
Liabilities assumed	599,289	621,969
Net tangible assets acquired	72,361	369,174
Goodwill — excess of cost over net tangible assets acquired	315,129	1,062,979
	$387,490	$1,432,153
Consideration paid or payable at December 31, 1973		
Cash	$ 87,490	$1,057,153
Long-term debt (note 5(a))	300,000	375,000
	$387,490	$1,432,153

3. Winding up of subsidiaries

During the year two inactive subsidiaries were wound up resulting in a total gain of $4,840. The minority interest in one of the subsidiaries was acquired prior to winding up.

4. Bank indebtedness

Bank indebtedness includes bank loans of a subsidiary of $300,000 which are secured by the accounts receivable and inventories of that subsidiary.

5. Long-Term debt and other non-current liabilities

(a) Long-term debt	1973	1972
Notes payable Without interest (note 12)	$140,000	$150,000
Interest at 6%, due 1977	300,000	—
Mortgages payable — first charge on land and buildings		
7½%, maturing 1976	154,235	161,706
9%, maturing 1978	25,000	—
Debenture payable Without interest, due 1978 (b)	375,000	—
	994,235	311,706
Less: principal payments due within one year	99,541	17,471
	894,694	294,235
Other non-current liabilities (net of current portion)	27,500	17,200
	$922,194	$311,435

Required payments during the next five years:

1974	$ 99,541	1977	$ 91,500
1975	$103,400	1978	$419,000
1976	$229,335		

(b) The debenture payable arose from the purchase of the net assets and business of Dependable Furniture Mfg. Co. Ltd. and is secured by a charge only on the assets purchased. This balance is net after $100,000 lodged as a deposit under an escrow agreement and the deposit is payable on September 30, 1974.
The amounts payable on the debenture and the deposit under escrow may be reduced should the pre-tax earnings of this division not reach specific levels during the five year period ending June 30, 1978.

6. Income taxes

The Company's accounting policies with respect to income taxes are set out in note 1(d).
Deferred income taxes consists of:

	1973	1972
Deferred income tax credits resulting from claims for tax purposes of capital cost allowance in excess of depreciation and amortization recorded in the accounts	$27,300	$5,000
Deferred income tax charges contingent upon a certain subsidiary earning sufficient profits in future years.	(20,000)	—
	$ 7,300	$5,000

Not included in the amount of deferred income tax charges is the tax effect of loss carry forwards available to the Company of approximately $61,000 at December 31, 1973.

7. Capital stock

(a) During 1973, under the employees' stock option plan, 5,500 common shares were issued for cash for $6.16 per share. Of the $33,880 total consideration received, the premium of $32,780 was credited to contributed surplus and the par value of $1,100 to capital stock.

(b) Stock option
A stock option plan established in 1969 for executives of a subsidiary was cancelled. There are no stock option plans outstanding at December 31, 1973.

8. Extraordinary items

This consists of the following:

	1973	1972
Reduction in income taxes as a result of loss carry forwards	$50,800	$30,800
Gain on the winding up of certain inactive subsidiaries	4,840	—
Loss on disposal of real estate property, net of income taxes	—	(2,500)
	$55,640	$28,300

9. Earnings per share

Earnings per share are calculated using the weighted average number of shares outstanding during the year. In the calculations, the 192,420 common shares of Cantol owned by a subsidiary were treated as though these shares were not issued.

10. Remuneration of directors and senior officers

The total remuneration paid by the company and its subsidiaries to its directors and senior officers was $201,300 in 1973 and $146,850 in 1972.

11. Long-Term leases

The Company has entered into long-term leases with respect to its existing operations with various expiry dates to 1981. Minimum rentals (exclusive of taxes, insurance and maintenance costs), for the total period of five years under these leases are approximately $670,000.
In addition, the Company is committed to eight leases in connection with operations that have been discontinued. The gross liability under these leases approximate $76,961; however, all eight locations have been subleased and provision has been made in the accounts for the estimated future net losses to be incurred with respect thereto.

12. Subsequent event

On February 7, 1974, a condition precedent to an agreement which gave rise to notes payable, without interest, was fulfilled and $140,000 together with a prepayment charge becomes due and payable on May 7, 1974.

AR19

August 20, 1973

CANTOL LIMITED — CANTOL LIMITEE

HEAD OFFICE: 9729 Cote de Liesse, Dorval Quebec.

EXECUTIVE OFFICES: 199 Steelcase Road, Box 2400, Don Mills, Ontario, M3C 2T9.

CONDENSED STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 1973
(with comparative figures for 1972)

(Consolidated Unaudited)

	1973	1972
Sales	$2,159,337	$1,478,477
Income from operations before income taxes and extraordinary items	182,858	234,186
Income taxes	94,477	117,454
Income before extraordinary items	88,381	116,732
Add (deduct) extraordinary items		
Reduction in income taxes as a result of loss carry forward	4,960	11,585
Loss on sale of land	—	(2,500)
Net income for the period	$ 93,341	$ 125,817
Earnings per share (note 2)		
Income before extraordinary items	$ 0.19	$ 0.25
Extraordinary items	0.01	0.02
Net income for the period	$ 0.20	$ 0.27

NOTE 1. Effective May 1, 1973, the company, through its wholly-owned U.S. subsidiary, acquired the business, on a going concern basis, of Technical Maintenance Products Inc. The results of this operation have been consolidated from that date.

2. Earnings per share have been calculated on the basis of 467,145 shares outstanding in 1973 and 458,645 shares outstanding in 1972. This does not include 192,420 shares of the parent company held by a subsidiary.

President's Message to Shareholders

Dear Shareholder,

The promise made by the acquisitions during the past 12 months of Creco Inc. of New York and Tech Maintenance Products Inc. of Philadelphia, has been borne out by our sales increase of 46% for the first half of the year. Almost all of the $680,860 increase is attributable to the sales generated by these two U.S. operations, although Tech's figures were only consolidated for the last two months of the period.

I am pleased to report that the heavy reorganization investment in these two acquisitions is now starting to show results, and we ended the half year in a break-even situation for the U.S. operations. We have reached this situation somewhat earlier than originally anticipated, and profitability levels for the full year should be at least as high as last year.

Prices of our products were increased across the board in Canada, on July 1, to take allowance for increased costs of raw materials, and it is planned to increase prices in the United States immediately when the government imposed price freeze is lifted.

Subject only to approval by the necessary regulatory authorities, the directors have concluded an agreement with the owners of Dependable Furniture Manufacturing Company Ltd. of Richmond, B.C. for a cash purchase of the assets of that company. Dependable Furniture is one of the largest manufacturers of its kind in Western Canada. The Company produces a range of medium to high-quality furniture which sells through leading department and furniture stores and contract suppliers in the Western provinces. We will be retaining the present management and hope to be able to expand the company's activities geographically to cover all of the country.

On behalf of the Board of Directors.

E. Bayer
President